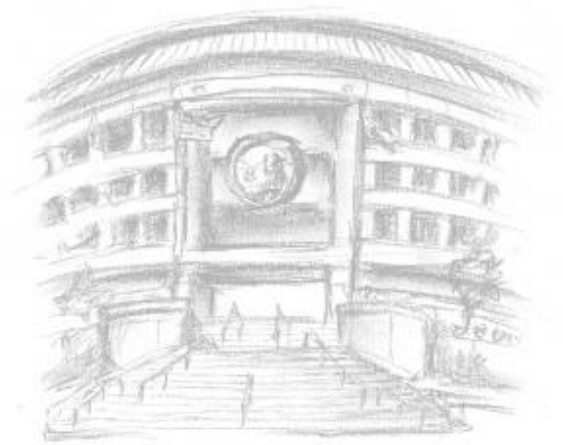




Water Ratemaking



California Public Utilities Commission

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Water Division

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Topics

- California Public Utilities Commission (CPUC)
- Water Utility Regulation
- Ratemaking
- Rates and Bills
- Water Affordability



CPUC Overview

- **Five-member Commission**
 - Appointed by the Governor for six year terms
 - All current commissioners appointed by Governor Brown
 - Voting Meetings held every two weeks
- **1,200 employees**
 - Divisions
 - Safety – energy, rail transit and railroads
 - Energy
 - Communications
 - Consumer Affairs
 - Water
- **Administrative Law Judge Division**
 - Prepare decisions in response to utility applications
- **Office of Ratepayer Advocates (Internal Consumer Advocate)**
 - Formal role as a party in utility applications





Water Utility Regulation

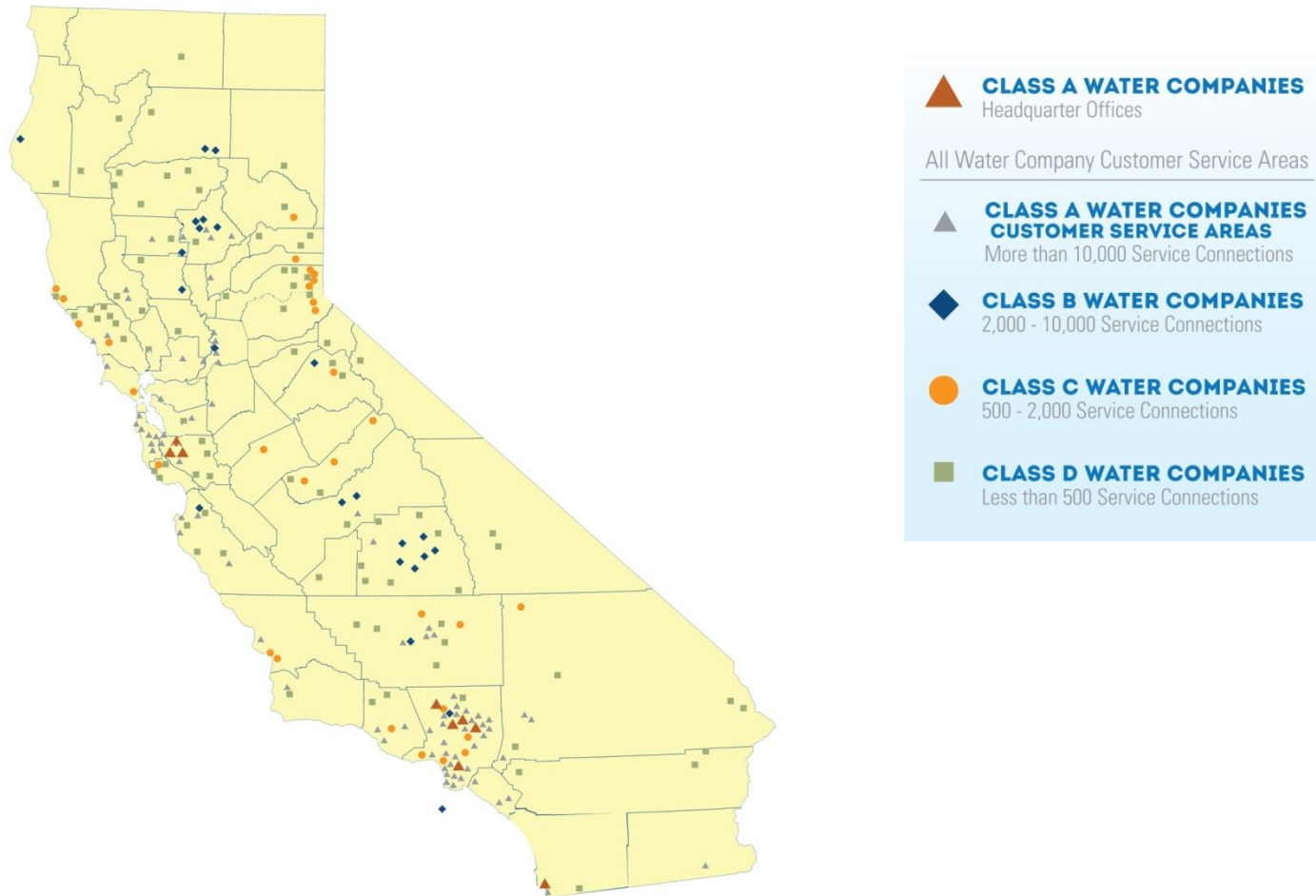
- **CPUC Charter:** Clean, safe, and reliable water service at just and reasonable rates

CPUC regulates 101 Investor-Owned Water Utilities

- \$1.4 Billion in revenues
- Serving over 6 million Californians – 15% of the state's population
- Challenges and Cost Drivers
 - More stringent water quality standards
 - Aging infrastructure
 - Declining water use
 - Recession
 - Conservation mandates
 - Drought



Water Utility Geographic Reach





Water Bills 101

- Service Charge + Quantity Charge = Bill
- **Service Charge**
 - Stand-by/Ready-to-use charge. Applies even if no water use.
 - \$30 or so per month
 - \$26.68 for San Jose Water Company
- **Quantity Charge**
 - Per ccf - hundred cubic feet (748 gallons per hundred cubic feet)
 - Average household uses about 10 – 15 ccf per month (250 to 375 gallons per day)
 - “Inclining Block Tiers”
 - the more you use, the more you pay
 - \$3.50 to \$5 per CCF
- Surcharges



Ratemaking

- Traditional Cost-of-Service
- Two Components

Expenses

- Recover all just and reasonable costs of providing water service plus earn a rate of return (apx. 7.5%) on Ratebase

Ratebase

- Utility plant in service (water mains, storage tanks, treatment plants) less accumulated depreciation



Revenue
Requirement





Ratemaking

- The Forecast
 - How much water will you sell?
 - How many customers do you have?
- Fixed costs recovered through the Service Charge
 - Definition: Not related to the quantity of water used
 - All or some?
- Variable costs recovered through the Quantity rate
 - Definition: Related to the quantity of water used
 - Plus remaining fixed costs
 - Tiers



Ratemaking

- Water utilities are a high fixed cost business
 - 70% fixed costs
 - No water use, fixed costs remain
- Rate Design should match business model
 - It doesn't
 - Ca. Urban Water Conservation Council
 - BMP 11
 - 70% revenues from volumetric sources
 - CPUC
 - 50% fixed costs in service charge historically
 - Currently 30% fixed costs in service charge
 - Can go up to 40% now



Conservation Signal – increase quantity charge



WRAM

- Water Revenue Adjustment Mechanism
 - Modeled after the energy utilities
 - Recovers lost utility revenue
 - In exchange for promoting conservation
 - Surcharge recovery in the following year
 - Impact of recession and drought
 - Forecasts were too optimistic
 - Customers will pay more for using less



WRAM was put into place to mitigate the risk from water conservation.





Low-Income Ratepayer Assistance

- All large water utilities offer low-income bill assistance programs.
- 250,000 residential water customers participate in these programs.
 - 1 in 6 residential customers across CPUC water utilities
 - San Jose Water Company
 - 20,000 participate in this program.
 - Out of about 200,000 total residential connections.
- Income criteria similar to that applied by the energy low-income programs.
 - 200% of Federal Poverty Guidelines
 - \$50,200 (2017 Family of Four)
- Public Water Agencies generally do not have low-income ratepayer assistance programs





Water Action Plan

- The WAP is a forward looking plan that describes the regulatory future the CPUC wants to achieve for water utilities and lays out the steps needed to get there
- First adopted in 2005, updated in 2010
- Principles
 - Safe, high quality water
 - Highly reliable water supplies
 - Efficient use of water
 - Reasonable rates and viable utilities





Water Action Plan

- Objectives
 - Maintain highest standards of water quality
 - Promote Water infrastructure investment
 - Strengthen water conservation programs
 - Streamline decision making
 - Rates that balance investment, conservation, and affordability
 - Assist low-income ratepayers

The primary goal then and now remains the same: apply regulatory best practices from the energy utilities to the water utilities and place water conservation at the top of the loading order as the best, lowest-cost supply source.



Water Action Plan

- Since WAP was first adopted, the CPUC has:
 - Decoupled sales from revenues
 - Instituted tiered rate structures
 - Updated water conservation rules and water service standards
 - Water utility conservation budgets have increased multiple times
- Three year mandated schedule for Class A general rate case filings
- Low-income ratepayer assistance programs are in place across all Class A water utilities



Changed Utility Business Model from selling water to conserving water.



California State Auditor

- Recent Reports about Water Rates
 - Southeastern Los Angeles County – January 2013
 - Antelope Valley Water Rates – July 2014
 - Apple Valley Area Water Rates – April 2015
- Highlighted Findings
 - Rates charged by retailers had risen mostly due to the increase in wholesale water rates.
 - Rates rose due to increasing capital-related costs and because of rate structures to encourage water conservation.
 - Unlike investor-owned utilities (IOUs), public utilities have sources of revenue other than water rates.
 - IOUs charge more because they have costs to cover...such as property or income taxes.
 - IOUs offer rate assistance programs for low-income customers.
 - CPUC uses its ratepayer advocacy arm to protect the interests of consumers; recommends that other retail water suppliers adopt such a practice.





Water Affordability

- Strategic Directive #4: “Assure that essential services remain affordable for Californians...”
- Water IOUs serve 15% of the state’s population
 - Districts span the entire state
- Median Household Income is **\$59,756***
 - In the cities that are served in the service areas of our 9 Class A Water Utilities
- Median Average Monthly Water Bill is **\$64.22****



Q: Is water affordable?

*2016 American Community Survey

**June 2017





Water Affordability

- How to define Affordability?
 - CPUC has not adopted an affordability standard.
 - Low-Income Programs
 - 19% participation rate
 - Average Monthly Discount - \$9.50
 - Eligibility Criteria
 - 200% of Federal Poverty Guidelines
 - \$50,200 (2017 Family of Four)
 - Agencies with Affordability Guidelines
(Percentage of monthly household income)
 - SWRCB – 1.5%
 - US EPA – 2%
 - United Nations Development Program – 3%



Water Affordability

- Applying the Affordability Criteria to Median Household Income, the monthly water bills are as follows;

SWRCB	US EPA	UN
1.5%	2%	3%
\$74.70	\$99.60	\$149.39

- Water IOUs
 - Median Average Monthly Bill is **\$64.22**

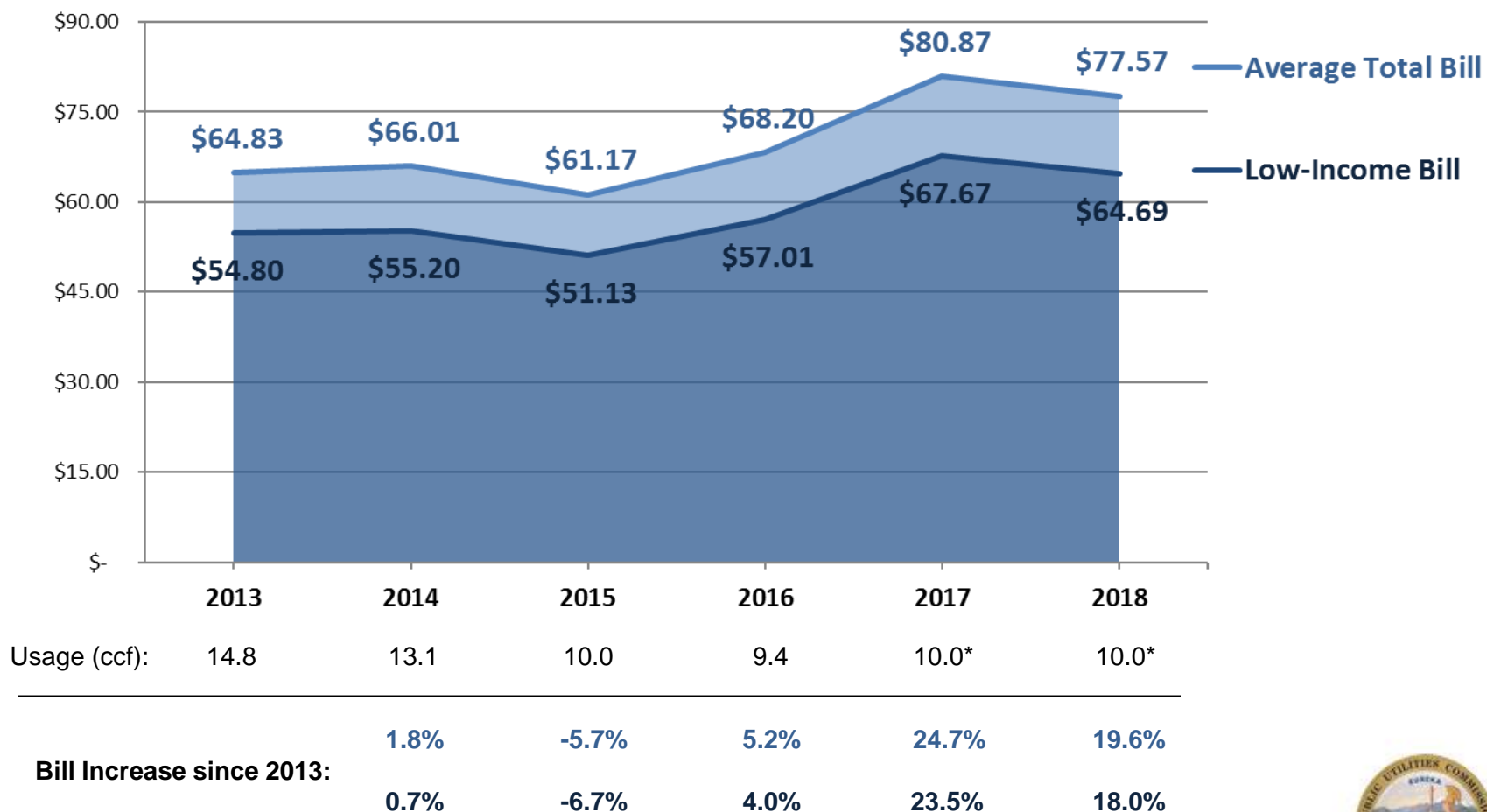


Q: Is Water Affordable?



SJWC Rate History

Average Monthly Usage

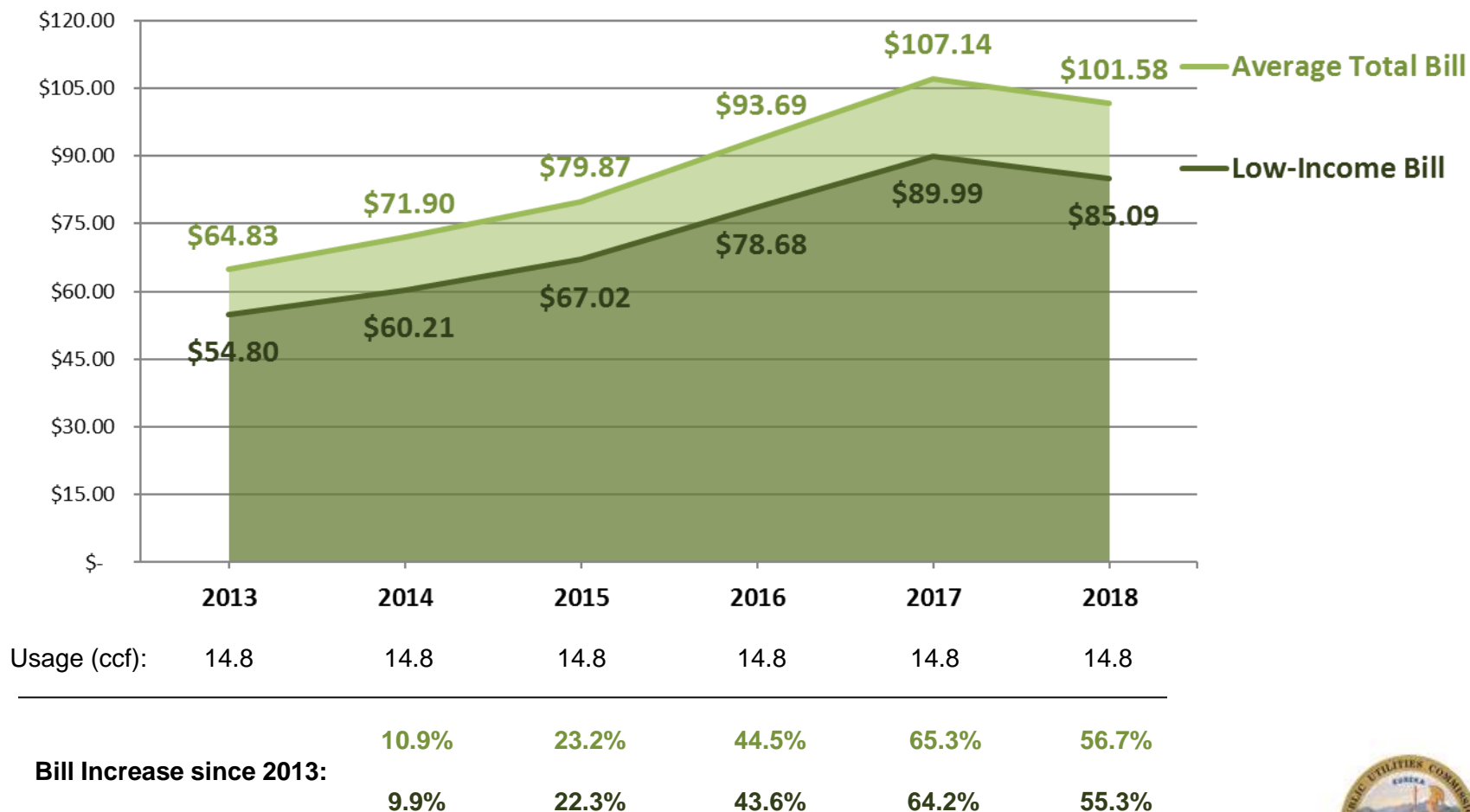


*Estimate 2017 & 2018 Usage



SJWC Rate History

Constant Usage





Water Ratemaking

Thank you!

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